Broadcast Network Programming Development 101

April 2003

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Chapter 1

Some Broadcast Network Basics

The objective of a broadcast network: To fill the schedule with programs.

	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.
8:00							
8:30							
9:00							
9:30							
10:00							
10:30							

But not just any programs...

...Remember, a broadcast network has only one source of revenue -- advertising.

Advertisers want to reach as many viewers as possible. Therefore, to attract advertisers, a network must air programs that are compelling to viewers. That’s why ratings are critical.

Every year, in late May, networks unveil their upcoming fall season prime-time line-up to advertisers. This is called the "upfront market."

Advertisers commit to buying ad time within the upcoming programs they think will reach their targeted audience. The network, in turn, promises the advertiser that a certain number of viewers will tune into these programs. If the network fails to deliver the promised audience, the network must "make good" to the advertiser. This means that the network must use up valuable airtime to repeat the advertiser's commercial.

Rolling out a great fall lineup of programs is crucial to the network. Approximately 70-80% of the network's advertising inventory is sold during the upfront.

In short, a winning schedule of programs is the goal. In order to achieve it (and to maximize revenues) it is imperative that networks take program ideas and programs from *anyone* with a winning concept and show.

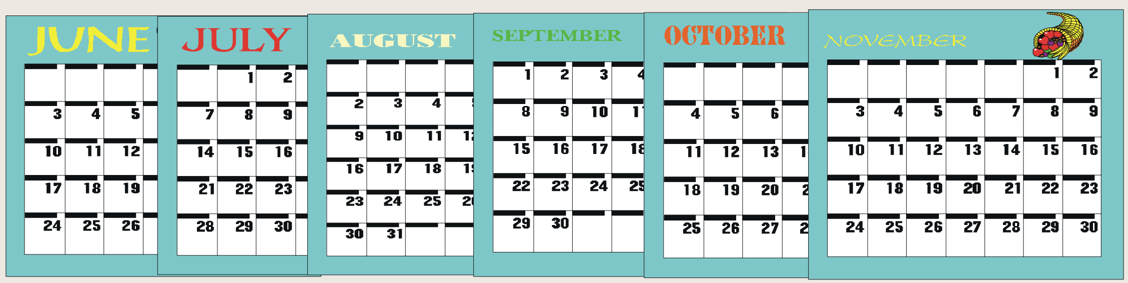
Now let's take a look at how the fall schedule is put together.

Chapter 2

The Program Development Process

Dramas/Comedies: The Pitch

The network has a separate drama department and comedy department (as well as an alternative programming department that develops reality programming), each of which considers and evaluates ideas, scripts and pilots submitted by potential program suppliers. Personnel in these departments guide the creative development of drama and comedy programs based on the needs of the network schedule.



Starting in the summer and going through about Thanksgiving, each network gets “pitched” with about 250-400 drama and 250-400 comedy program ideas. In total, well over 2,000 programming ideas are pitched to the four major networks.

By whom?

1. Studios
2. Writers, Producers and Writers/Producers
3. Actors

1. *Studios*

--*have traditionally been responsible for the production of the vast majority of network television programs. Their production assets/advantages include:*

- Extensive production facilities for both film and tape
- Experienced production personnel
- Longstanding relationships with the networks and other buyers of programming
- The ability to finance the high cost of production, including deficits (total development and production costs less the license fee paid by a network to broadcast the program)
- Relationships and agreements with creative personnel (writers, producers, directors)

Studios include: Universal, Sony, Disney (Touchstone), 20th Century Fox (Regency, Fox Studios), Viacom (Viacom Productions, Big Ticket, Spelling, Paramount), Carsey-Werner-Mandelbach, Warner Bros. (Telepictures) and MGM. Three of the four largest broadcast networks are affiliated with a studio (ABC/Disney, CBS/Paramount, FOX/20th Century Fox).

2. Writers, Producers and Writers/Producers

--are individuals or companies who are the creative force behind one or more programs. Writers/producers may have their own production companies and these companies may, in turn, be associated with a film studio (e.g., John Wells, producer of "West Wing," is associated with Warner Bros.).

- Studio-writer/producer business arrangements can cover a single project or multiple projects over a period of time (e.g., Dick Wolf with USA Studios ("Law and Order" on NBC), or Imagine Entertainment with 20th Century Fox ("24" on FOX)).

- Writers/producers usually do not have their own physical production facilities, but they can rent out studio space as needed.

- Unless they have had a string of successful programs that generate ongoing revenue, writers/producers lack the ability to finance the production of new programs. Association with a studio gives the writer/producer access to production facilities, personnel, financing and other production advantages that help get a program made and on the air.

- The writer/producer may already have a deal with a studio when the pitch to the network is made. Alternatively, the writer/producer may first get a commitment from the network to fund the writing of a pilot script and/or the production of a pilot and then try to line up a production deal with a studio.

3. *Actors:*

- An actor may pitch one or more program ideas to a network, either on his/her own or in conjunction with a writer/producer.

- Examples of such pitches that resulted in network series in which the actor stars include:

    - Amy Brenneman (“Judging Amy”)
    - Ray Romano (“Everybody Loves Raymond”)
    - Drew Carey (“The Drew Carey Show”)
    - Bernie Mac (“The Bernie Mac Show”)
    - Kevin James (“The King of Queens”)

- **There are three ways that drama or comedy series projects can be developed by a network.**

(1) as a project that is produced by a studio, or a writer/producer with his/her own production company (with a studio providing the deficit financing), where the network merely pays a fee to license the show for broadcast;

(2) as a joint venture or co-production between a network and a studio where the in-house production arm of the network and the studio share in both production costs that exceed the network license fee and revenues from non-network distribution (e.g., syndication) rights; or

(3) as a project that is produced solely in-house by the production arm of the network.

Studios, or writers/producers with their own production companies, may pitch their projects as outside-produced shows to be only licensed for network broadcast, or as a joint venture or co-production with the network.

Writers/producers or actors who do not have a deal with a studio may initially pitch their project to a network for development as a series produced by the network’s in-house production arm.

The structure of the business arrangement may be discussed by the parties as early as when the project is pitched or as late as when a pilot is ordered.

Dramas/Comedies: Ordering the Pilot Script

If the network likes a pitch, it will either commission the writing of a script for one sample show (known as "the pilot") or, if the script has already been written before the pitch, the network will reimburse all or part of the pilot script fee.

Of the 250-400 drama and 250–400 comedy program ideas pitched, each network will order somewhere between 40 and 75 comedy pilot scripts and between 60 and 80 drama pilot scripts.

- Script fees range from the low tens of thousands of dollars to the hundreds of thousands of dollars. Additionally, in order to induce a writer/producer to develop a project, a network may agree to pay a guaranteed amount up to millions of dollars that the writer/producer will receive if there is a series commitment. Also, in order to induce an actor to be part of a series, the network may guarantee him or her large payments.

- The network typically pays 50-100% of the script fee. The remainder of the fee is paid by the studio, writer/producer or actor developing the project.
- The network then has an exclusive option to order a pilot and a series – but within a finite period of time so that the entity pitching the idea can take the idea to other broadcast or cable networks.
- The parties will typically negotiate a formal agreement relating to the script.

From November through January, the pilot scripts are delivered to the network.

Dramas/Comedies:Ordering the Pilot Show

Out of the 40-75 comedy pilot scripts and 60-80 drama pilot scripts delivered, each network will order about 10-15 pilot comedies and 8-12 pilot dramas. The pilot allows the network to see how the script plays out as a fully produced program.

The pilot shows from each genre are selected based on the network's belief that the program will be a ratings success and in the ability of the creators of the program to deliver a show whose quality will be sustained under the pressures of series production. In this regard, experienced producers have an advantage.

Pilots are very expensive to produce. A 30-minute pilot costs \$1.6 – \$2.5 million. A one-hour pilot costs \$3.0 – \$5.0 million.

The network pays at least 60% of the cost of producing a pilot. The studio that produces the pilot must come up with funds to cover the difference, anywhere from more than \$600,000 to \$2.0 million.

Neither the network nor the show's producer/creator will recoup the script fees or cost of pilot production if the pilot is not selected for the next step, which is series production.

A formal contract is typically negotiated between the network and the studio (or the network-studio joint venture) that will produce the pilot at the time the pilot is ordered. The contract covers the terms for the production, and delivery to the network of both the pilot and any series based on the pilot, should the network decide to put the program on its schedule. Terms include:

- the license fee the network pays to air the program;
- the number of episodes the network is obligated to order; and
- the number of years the network has the exclusive right to license the series.

In the contract, the parties also formally agree upon the economic arrangement that best fits the circumstances of the particular project:

- Will it be an outside production, where the network merely pays a license fee for the right to broadcast the show on the network?

- Will it be a joint venture/co-production where the network pays a license fee *and* puts up additional monies in exchange for some of the "back end" rights – including a percentage of revenues from domestic syndication, international syndication, cable distribution or other ancillary rights, such as merchandising?

- Will it be a network in-house production?

Dramas/Comedies: Series Production

About mid-April, the pilot shows from each genre are delivered to the network. Of these, typically about 6 or 7 comedies and 6 or 7 dramas are "picked up" for series production and will make it onto the network's fall or mid-season schedule.

Selection of a series is based on the needs of the network's schedule:

- "holes" need filling because of cancelled programs;
- a balance of different genres is needed to please various audience tastes;
- counter-programming strategy is needed to take away the competition's audience

The network also relies on research to predict how the audience will respond to the show.

Drama/Comedies: Series Production Begins

The network drama and comedy departments work with the creative and production team on an ongoing basis during series production.

Production costs for scripted prime-time programs are extraordinarily high. A 30-minute comedy costs between $1 - $1.5 million per episode; A 60-minute drama costs between $1.6 and $2.3 million per episode.

The license fees paid by the networks for the right to broadcast these programs – from $550,000 to $1 million for a half-hour comedy and from $950,000 to $1.5 million for an hour drama – only cover about 1/2 to 2/3 of the cost of production. The balance is the production "deficit."

In addition to sharing costs of program development and production, the network devotes enormous resources -- including on-air time, and advertising in print and other media –- to promote and market all its new drama and comedy series so they get “sampled” and retain a loyal audience.

The goal of the network is to draw viewers. If a new series is not garnering good ratings, the network will cancel it -- whether or not the network has an ownership stake. For example,

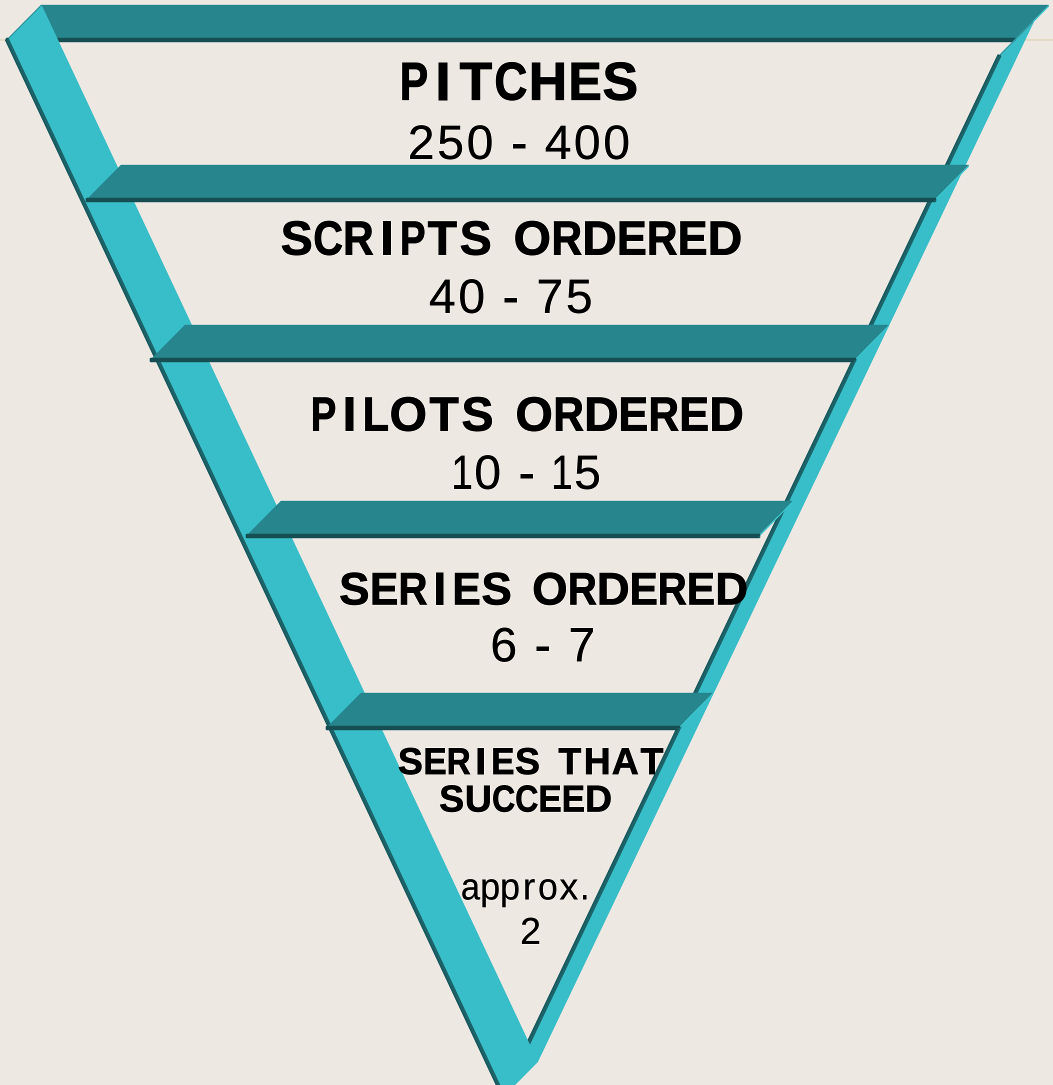
- two of the new fall shows on ABC were canceled before the end of the current season (“Miracles” and “MDs,” both produced by Disney/Touchstone);

- three of the new fall shows on CBS were canceled before the end of the current season (“Presidio Med,” produced by Warner Bros.; “RHD/LA, produced by USA Studios; and “Bram and Alice,” produced by Paramount).

Despite the efforts and expenditures of networks, studios, producers and creative talent outlined above, 2/3 of all new entertainment series fail.

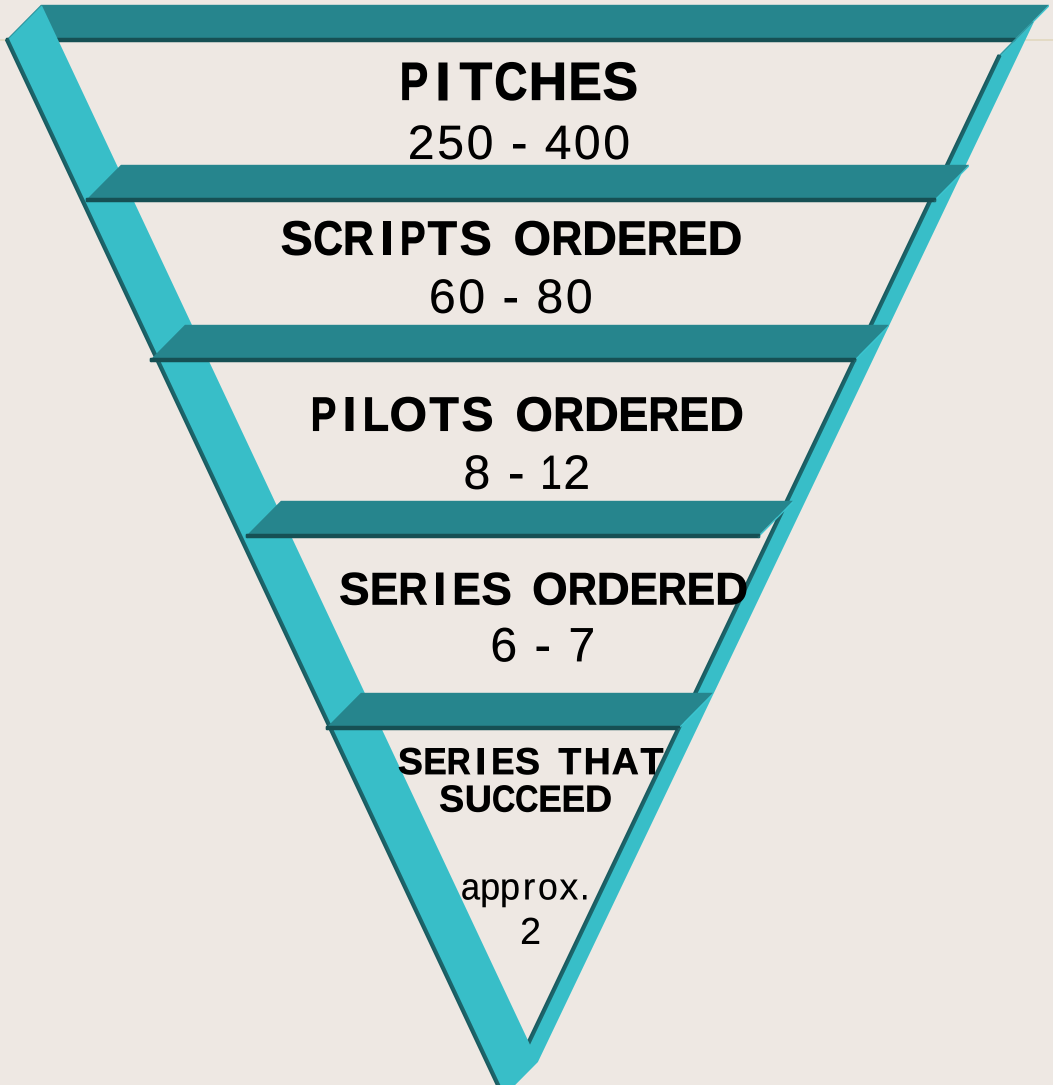
COMEDIES

(per network)



DRAMAS

(per network)



Reality: The Development Process

The development process for reality programs differs from scripted programming (dramas and comedies) in the following ways:

- Those pitching concepts are usually not associated with a studio. Thus, the reality genre has created many opportunities for independent producers to get their shows on the networks' prime-time schedules.
- There is no script and typically no pilot. The show's format may be based on a similar show already produced or in production in Europe. In these cases, fees have to be made to the copyright holder of the reality show format.
- Generally, the network license fee covers most production costs (so there is no deficit). There is no significant back-end (syndication).

Chapter 3

Do the Math

One Comedy Show in its First Season

Using the low end of the cost range and the high end of the network payment range (a best case scenario, in other words), here are the economics of developing and producing a new half-hour comedy during its first season:

Script fee:	$25,000
(100% paid by network)	($25,000)
Net:	0

Cost of producing a pilot:	$1,600,000
(60% paid by network)	($960,000)
Net:	($640,000)

Cost of producing 21 episodes	
@ $1 million per episode	$21,000,000
(2/3 paid by	
network thru license fees)	($14,000,000)
Net:	($7,000,000)
Total costs	$22,625,000
Total paid by network	$14,985,000
Total minimum first season	
deficit per series	($7,640,000)

One Drama Show in its First Season

Using the low end of the cost range and the high end of the network payment range (again, a best case scenario), here are the economics of developing and producing a new hour drama during its first season:

Script fee:	$50,000
(100% paid by network)	($50,000)
Net:	0

Cost of producing a pilot:	$3,000,000
(60% paid by network)	($1,800,000)
Net:	($1,200,000)

Cost of producing 21 episodes @ $1.6 million per episode	$33,600,000
(2/3 paid by network thru license fees)	($22,400,000)
Net:	($11,200,000)
Total cost	$36,650,000
Total paid by network	$24,250,000
Total minimum first season deficit per series	($12,400,000)

Question of the day: Who pays for the **deficit**?

Answer: Usually, only studios and networks have the ability to finance the difference between the network payments and the cost of producing a series. Small producers/production companies must make a deal with a studio or one of the networks in order to produce a pilot and/or series. So often, it's the production arm of the network (generally in a joint venture with a studio) that picks up some or all of the deficit for smaller producers.

Like anyone putting up money, the network expects something in return for paying the deficit and bearing the financial risk. And what can the network receive in return for paying the deficit/bearing risk?

1. a portion of revenues from domestic syndication; and/or

2. a portion of revenues from international syndication.

When a network acquires these so-called “back end” rights, the profits generated when those rights are exploited are typically shared with other profit participants in the program (a studio, a large or small writer/producer and/or writers, directors and actors). The existence of profit participants ensures that the back end rights are aggressively exploited.

Let’s look at each of these back end rights in turn.

Domestic Syndication

A network could negotiate for a portion of revenues from domestic syndication in exchange for funding the deficit and bearing the financial risk.

If the show remains on the network long enough to accumulate 80-100 episodes (about 4 seasons), then a show is an attractive product for domestic syndication. This is called "off network" syndication, and successful examples include "Cheers" (which ran on NBC), "MASH" (which ran on CBS) and "The Simpsons" (which continues to run on FOX).

Even if a show goes into syndication, it is not necessarily a success. Dramas do not do as well in broadcast syndication as do comedies. Rather, they are more likely to be bought by cable networks, which pay lower syndication fees than broadcast stations.

Bottom line: A network that agrees to fund the deficit in return for sharing in only domestic syndication earns back its monies ONLY IF:

- the series is on the network long enough; and
- the series is popular with broadcast TV stations buying the product.

As you can see, the network takes a big gamble when it finances the deficits incurred in producing a show.

International Syndication

A network could also negotiate for a portion of revenues from international syndication in exchange for funding the deficit and bearing the financial risk.

In the old days, you could count on international buyers to purchase off-network syndicated programs. Today, the demand for American television shows is in great decline. Many countries have their own domestic production capability. Foreign entities buying American programming are not willing to pay as much as they did in the past. And even American-owned media companies operating in foreign countries have learned that local viewers best respond to local programming.

Bottom line: A network cannot count on international syndication to recoup the funds it contributes to a show's deficit.

Conclusion

Networks do not merely purchase the right to exhibit "finished goods." Rather they are intimately involved in the development of prime-time entertainment programming and are the principal financiers of that programming.

Television production is an extremely costly and risky business. More than 2,000 ideas and hundreds of scripts result in some 50 new network shows across all four major networks and, typically, only about 16 of those shows will make it to a second season. Given the high cost and high failure rate, writers/producers cannot fund the cost of producing original scripted series.

The issue is not access to the networks – more than 2,000 ideas get pitched each year – but the extraordinarily risky economics of series production.

Networks, studios and writers/producers are not adversaries; rather they work cooperatively to establish risk-sharing arrangements, such as co-productions and joint ventures, and to maximize the chance of producing and broadcasting a successful program.

Any government regulation that disrupts the efficient allocation of cost and risk will only result in the production of fewer new series programs.